

Message Text

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PAGE 01 DAMASC 02889 01 OF 02 061204Z
ACTION SS-25

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R 061045Z MAY 77
FM AMEMBASSY DAMASCUS
TO SECSTATE WASHDC 2981
INFO AMEMBASSY BEIRUT
AMEMBASSY LONDON
AMEMBASSY JIDDA

C O N F I D E N T I A L SECTION 1 OF 2 DAMASCUS 2889

EXDIS

LONDON FOR SECRETARY'S PARTY

E.O. 11652: GDS
TAGS: PFOR, SY, SA, US
SUBJECT: SAUDI PERCEPTION OF ASAD'S STABILITY

REF: (A) DAMASCUS 3419, (B) DAMASCUS 1299

1. SUMMARY: SYRIANS WE HAVE MET WITH IN DAMASCUS PROFESS IGNORANCE WHY SAUDIS NOT MORE FORTHCOMING WITH FINANCIAL ASSISTANCE FOR ASAD REGIME. SARG TECHNOCRATS BLAME THEIR OWN MISMANAGEMENT OF INVESTMENTS AND FISCAL DRAIN CAUSED BY LEBANESE CRISIS FOR THEIR TROUBLES, BUT POINT OUT SARG HAS TAKEN STEPS TO DISCIPLINE ECONOMY AND MUST SOON CONFRONT DIFFICULT DECISION OF CUTTING BACK ON SUBSIDIES FOR STAPLES, WHICH THEY BELIEVE WOULD INCREASE POPULAR DIS-SATISFACTION. THEY REITERATE THAT THEIR FOREIGN EXCHANGE CRISIS REMAINS SERIOUS. SYRIANS AWARE SAUDIS CANNOT SOLVE SYRIAN ECONOMIC PROBLEM, BUT THEY FEEL SAUDIS COULD RELIEVE SOME ECONOMIC PRESSURES BEFORE THEY BECOME MORE POLITICALLY DESTABILIZING TO ASAD REGIME. WITH US SEEKING TO ASSIST SYRIA AND SAUDI ARABIA TIGHTENING ITS ASSISTANCE, CONFIDENTIAL

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WASHINGTON AND RIYAD APPEAR TO BE WORKING AT CROSS PURPOSES AS WE ENTER INTO PERIOD OF HIGH-RISK DIPLOMATIC ACTIVITY TO RESOLVE ME DISPUTE. IT WOULD BE USEFUL TO KNOW SAUDIS' REASONS FOR WITHHOLDING FURTHER PAYMENTS TO SYRIA AT THIS TIME. END SUMMARY.

2. (THIS MESSAGE HAS BEEN APPROVED BY AMBASSADOR.) THE

SYRIANS ARE LEARNING THE HARD WAY THAT IT IS UNWISE TO COUNT ON SAUDI ASSISTANCE UNTIL THE MONEY IS ACTUALLY IN THE BANK. THEY ARE PARTICULARLY SENSITIVE TO THE SAUDI ATTITUDE NOT ONLY BECAUSE SAUDIS ARE WEALTHIER THAN OTHER POTENTIAL ARAB DONORS BUT ALSO BECAUSE SAUDI ARABIA'S POSITION IS LIKELY TO AFFECT ATTITUDE OF OTHER GULF STATES TOWARDS ASSISTING SYRIA. THEY HAVE SEEN RECENT LARGE SAUDI PLEDGES TO EGYPT AND TO AFRICAN NATIONS, BUT HAVE RECEIVED NO SAUDI FUNDS THEMSELVES IN 1977 DESPITE DRASTIC FOREIGN EXCHANGE CRISIS SYRIA NOW EXPERIENCING.

3. NUMEROUS SYRIANS WE HAVE TALKED TO, INCLUDING MINECON IMADI, PROFESS NOT TO UNDERSTAND REASONS FOR SAUDI ATTITUDE. IF TOP LEADERSHIP KNOWS, IT IS NOT SAYING. REASONS WE HAVE HEARD AROUND DAMASCUS INCLUDE: A. SAUDI DESIRE TO LOOSEN SYRO-SOVIET TIES AND TO PREVENT USE OF SAUDI FUNDS TO PAY FOR SOVIET ARMS; B. SAUDI DESIRE TO OBLIGE ASAD TO ADOPT VISIBLY MORE PRO-WESTERN POLICIES ECONOMICALLY AND POLITICALLY; C. SAUDI DESIRE TO KEEP ASAD COMMITTED TO PEACE PROCESS; D. SAUDI ANGER AT SYRIA'S RATHER CRUDE PRESS ATTACKS AGAINST ARAB OIL-PRODUCING SHEIKDOMS FOR THEIR PARSIMONY; E. SAUDI ANGER OVER SYRIA'S DOMINEERING POLICIES IN LEBANON AND DESIRE TO ASSURE THAT A MODERATE, NON-SOCIALIST GOVERNMENT EMERGES IN LEBANON AND EVEN; F. SAUDI DESIRE TO REPLACE ASAD'S BAATHI ALAWITE REGIME WITH A CONSERVATIVE SUNNI GOVERNMENT. LESS DRAMATIC EXPLANATIONS, WHICH NO DAMASCENE CREDITS, ARE THAT SAUDI BUREAUCRATIC PROCESS MAY BE HOLDING UP PAYMENTS AND/OR THAT SAUDIS MAY BE DELAYING 1977 PAYMENTS UNTIL SYRIANS HAVE ADEQUATELY ACCOUNTED
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FOR 1976 GRANTS.

4. ASAD APPEARS TO ATTACH SOME CREDENCE TO THE "CONCERN OVER SOVIET TIES" THEORY; HE DESPATCHED FONMIN KHADDAM ON A LIGHTNING TRIP TO RIYADH APRIL 16 BEARING A PERSONAL LETTER TO FAHD PRESUMABLY EXPLAINING HIS APRIL 18 VISIT TO MOSCOW. FOLLOWING MOSCOW AND WASHINGTON VISITS, KHADDAM AGAIN DESPATCHED TO RIYADH AND OTHER PENINSULA CAPITALS TO EXPLAIN OUTCOME OF TALKS.

5. MEANWHILE, SARG WESTERN ORIENTED ECONOMIC TECHNOCRATS ARE PREPARING TO IMPLEMENT ADDITIONAL MEASURES TO DISCIPLINE SYRIAN ECONOMY. IMADI TOLD AMBASSADOR MURPHY (DAMASCUS 2371) THAT PRIMIN KHULAYFAWI WAS GRADUALLY BECOMING CONVINCED OF NECESSITY TO PAY POLITICAL COST AND RAISE PRICES OF FOOD STAPLES, INCREASE TAXES AND REDUCE GOVERNMENT SPENDING. SARG HAS ALREADY BEGUN TO CUTBACK SUBSIDIES ON GOODS SUCH AS GASOLINE AND CONSTRUCTION MATERIALS CONSUMED BY THE MIDDLE CLASS.

6. IT SEEMS CLEAR THAT POLITICAL COST TO ASAD OF THESE MEASURES SYRIA WILL BE ADDED POPULAR DISSATISFACTION WITH REGIME UNABLE TO RESOLVE BASIC ECONOMIC ISSUES. SYRIAN HEADS OF HOUSEHOLD WHO SURVIVE ON FIXED INCOMES WILL BE ESPECIALLY HARD-HIT BY NEW MEASURES IF ADOPTED. (INCREASING PUBLIC SECTOR SALARIES THROUGH DOMESTIC FINANCING WOULD ONLY FURTHER FUEL INFLATION WHICH IS ALREADY 20-25 PERCENT THIS YEAR. FURTHER, SARG HAS OFFICIALLY TOLD PRIVATE SECTOR IMPORTERS THEY MAY LEGALLY USE ILLEGAL FOREIGN EXCHANGE HOLDINGS TO FINANCE IMPORTS, WHICH HAS PARTIALLY COMPENSATED FOR DROP IN IMPORTS. SARG ALSO DELAYING PAYMENTS FOR GOVERNMENT IMPORTS AND FLOAT IS COVERED BY INTERNATIONAL BANKS WHO CONTINUE SHOW FAITH IN SYRIAN CREDIT.)

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ACTION SS-25

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R 061045Z MAY 77
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C O N F I D E N T I A L SECTION 2 OF 2 DAMASCUS 2889

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7. SYRIAN OFFICIALS RESPONSIBLE FOR MANAGING SARG ECONOMY DO NOT CAST BLAME UPON SAUDIS FOR CAUSING THEIR ECONOMIC CRISIS. THEY ARE QUICK TO RECOGNIZE HIGH COST OF SYRIAN INVOLVEMENT IN LEBANON AND OF INVESTMENTS, PARTICULARLY IN SPENDING FLUSH OF 1974, IN QUESTIONABLE ECONOMIC PROJECTS. FOR SOME TIME IMADI AND HIS COLLEAGUES HAVE BEEN STEADILY TRIMMING BACK SARG INVESTMENT IN PROJECTS IN LATTER CATEGORY. EVEN THEY ARE QUICK TO POINT OUT, HOWEVER, THAT SAUDIS HAVE EASY CAPABILITY TO RELIEVE ASAD'S ECONOMIC PRESSURES.

8. LARGEST DRAIN ON LOCAL RESOURCES HAS BEEN SYRIAN

INVOLVEMENT IN LEBANON. IN OUR VIEW, SYRIAN POLICY THERE HAS GENERALLY ACCORDED WITH INTERESTS OF US AND SAUDIS AS WELL AS LEBANESE. SYRIAN EFFORTS TO STABILIZE LEBANON HAVE INCLUDED MODEST EXPANSION OF LEBANESE BAATHIST INFLUENCE, BUT AVAILABLE INFORMATION INDICATES THAT DAMASCUS REGIME RELYING ON COALITION OF MODERATE LEBANESE, OF WHICH BAATHISTS ARE ONLY SMALL COMPONENT, TO ESTABLISH FIRM POLITICAL STRUCTURE. IN THIS AIM ASAD IS NOT DEPARTING GREATLY FROM HIS INTERNAL POLICY WITHIN SYRIA, WHERE HE HAS

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DETERMINED TO CONSTRICT EXCESSIVE IDEOLOGICAL PREDILECTIONS OF BAATHISTS AND PUSH THEM TO ACCOMMODATE THEMSELVES TO PRAGMATIC POLICIES OF HIS ESSENTIALLY CONSERVATIVE MILITARY REGIME.

9. WE ARE AS UNCERTAIN AS THE SYRIANS WHAT SAUDIS MAY BE TRYING TO SIGNAL DAMASCUS BY THEIR APPROACH. THERE IS A DANGER, HOWEVER, THAT ASAD'S OWN SKILL TO DATE IN MAINTAINING APPARENT STABILITY IN SYRIA'S INHERENTLY UNSTABLE POLITICAL SYSTEM HAS INDUCED SAUDIS TO MISJUDGE DIFFICULTIES WHICH ASAD CONFRONTS. ASAD'S ABILITY TO PLAY ACTIVE ROLE THAT MAY INVOLVE ASSUMING SOME RISKS TO PRESSURE PALESTINIANS TOWARD REACHING SETTLEMENT WITH ISRAEL DEPENDS UPON HIS SUCCESS IN CONTAINING TRIBAL, SECTARIAN, SECURITY AND ECONOMIC STRESSES. WE HAVE NOTED INCREASED UNREST WITHIN ALAWITE COMMUNITY (DAMASCUS A-18 NOTAL) AND ONGOING SECTARIAN TENSIONS. REGIME ALSO HAS NOT BEEN ABLE TO PREVENT SELECTIVE ASSASSINATIONS OF KEY SARG OFFICIALS; MOST RECENT MURDERS INVOLVED DAMASCUS UNIV. RECTOR AND ALEPPO SECURITY CHIEF, BOTH OF WHOM ALAWITES.

10. THROUGH ADVANCING CCC CREDITS AND BY OTHER MEANS, USG HAS SOUGHT TO ASSIST SYRIANS IN DEALING WITH THEIR SHORT-TERM FOREIGN EXCHANGE SQUEEZE. WE AND SAUDIS SHARE INTEREST IN MAINTAINING ASAD'S CAPABILITY TO EMPLOY HIS ACUMEN TOWARD COMMON FOREIGN POLICY GOALS; ASAD'S SUCCESS LARGELY DEPENDS UPON CONTAINING THESE PROBLEMS. SAUDI FUNDS WILL NOT SOLVE ALL ASAD'S PROBLEMS, BUT THEY WILL RELIEVE SOME SIGNIFICANT ECONOMIC PRESSURES UPON HIS REGIME AND PERMIT HIS ECONOMIC TEAM TO CONTINUE NEEDED ECONOMIC REFORMS ALREADY PARTIALLY IMPLEMENTED AND INCREASE FOREIGN CONFIDENCE IN SYRIAN ECONOMY. INCREASED FUNDING WOULD SERVE AS TANGIBLE EXPRESSION OF SAUDI SUPPORT FOR SYRIAN STAKE IN STABILIZING LEBANON AND REACHING PEACE WITH ISRAEL, AND WOULD ALSO ENCOURAGE OTHER ARAB PRODUCERS TO ASSIST. THERE ARE, MOREOVER, INFLUENTIAL ELEMENTS IN SYRIAN MILITARY

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WHO WOULD FAVOR REPLACING SOVIET MILITARY EQUIPMENT WITH WESTERN EQUIPMENT IF FINANCING WERE AVAILABLE AND THERE WERE ASSURED WESTERN SOURCES.

11. WITH US SEEKING ADDITIONAL WAYS TO ASSIST SYRIA AND SAUDI ARABIA APPARENTLY TIGHTENING ITS ASSISTANCE, IT SEEMS THAT WE HOLD DIFFERING VIEWPOINTS TOWARD SYRIA AND ARE ADOPTING CONTRADICTORY POLICIES. IT WOULD BE OF VALUE TO KNOW MORE ABOUT SAUDIS' REASONS FOR WITHHOLDING FURTHER PAYMENTS TO SYRIA AT THIS TIME.

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